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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 001682

SIPDIS

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DEPT FOR EB/CBA SPECIAL REPRESENTATIVE J. FRANK MERMOUD
DEPT PLEASE PASS TO USTR FOR SHAUN DONNELLY, BETSY HAFNER
AND PAUL BURKHEAD
NSC FOR MATT PALMER
GENEVA FOR AMBASSADOR ALLGEIER
TREASURY FOR CLAY LOWERY, NANCY LEE AND JEFF BAKER
USDOC FOR U/S LAVIN

E.O. 12958: DECL: 11/17/2016

TAGS: [ECON](#) [ETRD](#) [PREL](#) [AJ](#)

SUBJECT: EB/CBA SPECIAL REPRESENTATIVE MERMOUD MEETS WITH
CUSTOMS COMMITTEE CHAIRMAN AND MINISTER OF EMERGENCY
SITUATIONS TO DISCUSS ECONOMIC REFORM AND COMMERCIAL
OPPORTUNITIES

REF: (A) BAKU 1475 (B) BAKU 1327

Classified By: AMBASSADOR ANNE E. DERSE PER REASONS 1.4 (B,D)

11. (C) SUMMARY. During his trip to Azerbaijan November 7-11,
1J. Frank Mermoud, the Department of State's Special
Representative for Business and Commercial Affairs, met with
Government of Azerbaijan (GOAJ) ministers and officials to
discuss economic reform, World Trade Organization (WTO)
membership, commercial opportunities for U.S. companies and
the upcoming Economic Partnership Commission. At the Customs
Committee, Mermoud discussed the importance of efficient and
transparent customs operations in order to develop and
strengthen Azerbaijan's economy and increase international
trade. Customs Committee Chairman Aliyev told Mermoud that
Azerbaijan wanted to join the World Trade Organization and
that Customs had recently updated its customs code to be WTO
compliant. In addition, he told Mermoud that the Customs
Committee would like to purchase cutter ships from the U.S.
in order to patrol the Caspian Sea borders.

12. (C) SUMMARY CONTINUED: During a meeting with Minister of
Emergency Situations, Mermoud received an overview briefing
of the new ministry's operations and areas of responsibility,
including several thousand military-style troops. Mermoud
told Minister of Emergency Situations Heydarov that the U.S.
could provide the know-how to modernize and update the
ministry's departments using U.S. technology. Heydarov told
Mermoud that MES "was ready to move forward" with purchases
from the U.S. Mermoud requested from Minister Heydarov a
list of all the equipment, goods, and technologies he planned
to purchase in order to formulate a commercial plan.
Minister Heydarov said he would compile a list of articles
and equipment that the ministry required and forward it to
the Embassy. In addition, Mermoud invited Minister Heydarov
to the U.S. in order to review U.S. emergency facilities,
meet with USG officials and visit with U.S. companies.
Heydarov told Mermoud that his ministry was "ready to
cooperate" with the U.S. in all areas, including equipment
purchases and training. Both Ministers Aliyev and Heydarov
supported elevating the economic dialogue between the U.S.

and Azerbaijan. In a separate meeting at the State Investment Company, Mermoud discussed with Executive Director Anar Akhundov the company's plans to invest in the non-oil sector. The State Investment Company is a newly created state-owned company with USD 100 million in capital designed to invest in non-oil sector companies and ventures. Mermoud raised the possibility of U.S. private equity cooperating and investing with the State Investment Company in Azerbaijan.
END SUMMARY.

MERMOUD AND CUSTOMS COMMITTEE CHAIRMAN

13. (C) On November 9, J. Frank Mermoud, the Department of State's Special Representative for Business and Commercial Affairs, accompanied by the Ambassador, met with Customs Committee Chairman Aydin Aliyev to discuss the important role Customs plays in trade facilitation, economic growth and overall security for Azerbaijan. Aliyev briefed Mermoud and the Ambassador on the Custom Committee's good cooperation with the U.S. Customs and Border Protection Service, highlighting the upcoming training for Customs officers by CBP trainers in December. He said that the new customs code, designed with assistance from UNDP and the EU, would be completed and presented in November. (NOTE: The Customs Committee and UNDP presented the draft customs code November 16.) Aliyev stated that he hoped the U.S. and Azerbaijan would sign the Customs Mutual Assistance Agreement in early 2007 during the inaugural Economic Partnership Commission (REFTEL A). Aliyev stated that the GOAJ was busy with hearings at Parliament regarding the 2007 state budget and that Customs in 2007 would contribute 25 percent more (approximately USD 143 million) to the government's revenue.

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CUSTOMS AND WTO

14. (C) Building on the recent visit of U.S. Ambassador to the WTO Peter Allgeier, Mermoud discussed the role of the Customs Committee in the WTO process, noting that accession to the WTO will assist the Customs Committee to develop into a world class organization. Aliyev told Mermoud and the Ambassador that President Aliyev had issued instructions regarding the WTO and that Customs was working to implement the necessary reforms to be ready for WTO accession. Aliyev told Mermoud that inauguration of a new customs code had been delayed but would be presented shortly. Three teams, including international experts from New Zealand, Canada and Turkey, had provided critical expert advice in drafting the new customs law. Aliyev said that the Customs Committee is working hard to meet WTO standards, especially on intellectual property rights protection and enforcement against counterfeits. Aliyev said that the new customs code includes a chapter on IPR protection. He stressed that private companies needed to work together with the Customs Committee to stop illegal counterfeiting and protect intellectual property.

15. (C) Mermoud stated that Customs is critical to build stronger trade ties between the U.S. and Azerbaijan. Mermoud recounted the business lunch hosted for President Aliyev in Washington in April 2006, noting President Aliyev's interest in WTO membership and Azerbaijan's development as a regional trade hub. Aliyev agreed, stating that President Aliyev attached a great deal of importance to improving economic cooperation and trade development between the U.S. and Azerbaijan. The Ambassador stated that a "strong and transparent" Customs Committee is important for the non-oil sector. Mermoud also highlighted the need to diversify the non-oil sector, adding that this topic would be discussed at the upcoming EPC meeting. Mermoud said that the EPC would facilitate a constructive bilateral dialogue in order to improve the facilitation of trade and investment between the U.S. and Azerbaijan.

CUSTOMS AND COMMERCIAL OPPORTUNITIES

16. (C) Mermoud raised with Chairman Aliyev U.S. commercial activities, noting that U.S. equipment, goods, and technologies can offer a wide-range of services and opportunities. Mermoud stated that President Aliyev during his U.S. visit highlighted the need for Azerbaijan to pursue new technology for the government and citizens as part of his goal to modernize and upgrade the country. Mermoud requested that Chairman Aliyev alert the Embassy to any future commercial opportunities. Aliyev stated that the Customs Committee had already purchased U.S. equipment from SAIC, adding that new equipment was scheduled to arrive in December. In 2007, Customs will receive an additional two pieces of inspection equipment from SAIC. Aliyev stated that Soviet-era machinery and technology were inadequate and that Azerbaijan was looking to update to new technology, per President Aliyev's modernization objectives.

17. (C) Aliyev told Mermoud that Customs would like to purchase U.S.-made "cutter" ships to patrol and monitor Azerbaijan's Caspian Sea borders. Aliyev recounted how the Customs Committee did not have enough money in previous years to purchase new equipment but now, with growing revenues, wanted to upgrade to "inexpensive but high quality" equipment. Aliyev requested from Mermoud contacts in with appropriate companies in order to establish contact for possible purchases. In addition, Aliyev told Mermoud that the U.S. should organize a trade exhibition in order to display U.S. telecommunication, transportation and other goods and technologies in Azerbaijan. Aliyev noted that

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Azerbaijan's budgets were growing quickly and that the country was importing new technologies from many countries, but not from the U.S. He stated that the entire GOAJ needed new and more modern equipment, an excellent opportunity for U.S. companies.

MERMOUD AND MINISTER OF EMERGENCY SITUATIONS

18. (C) Frank Mermoud and Ambassador Derse met with Minister for Emergency Situations (MES) Kemalladin Heydarov November 9 to discuss possible areas where U.S. companies, technology and know-how could assist the new ministry in meeting its critical national responsibilities. Minister Heydarov, who had recently returned from an urgent trip to Mingeshevir to review a landslide that threatened a cooling canal to a critical power station, briefed Mermoud on the new ministry's mandate and needs. Heydarov stated that MES had responsibility for many different areas, including civil defense, fire fighting, water rescue, sea rescue, construction quality oversight and state grain reserves. He said that he had a wide-range of authority and responsibility, including several thousand armed officials (REFTEL B). Heydarov mentioned that four of his ministry officials planned to travel to the U.S. for training in the coming weeks.

COMMERCIAL OPPORTUNITIES AT MES

19. (C) Heydarov told Mermoud that he was interested in purchasing new equipment from the U.S., noting that Soviet-era technology was "outdated and dangerous." Mermoud stated that the U.S. could provide the know-how to modernize and update the ministry's departments, using U.S. equipment, goods, and technologies. Mermoud cited the possibility of upgrading the ministry's telecommunications capabilities to facilitate better communication, noting that quick and reliable communication was key to resolving many emergencies. Heydarov agreed and related that when he was Chairman of the Customs Committee his employees actively participated in U.S.

training programs and the committee had purchased U.S. made equipment. Mermoud requested from Minister Heydarov a list of all the equipment and material he planned to purchase in order to formulate a commercial plan. In addition, Mermoud invited Minister Heydarov to the US. in order to review U.S. emergency facilities, meet with USG officials and visit with U.S. companies.

¶10. (C) Heydarov told Mermoud that MES "was ready to move forward" with purchases from the U.S. and would compile a list of articles and equipment that the ministry required and forward it to the Embassy. He stated that MES had already opened commercial negotiations with several different countries to purchase equipment and material. He said it would be easier to work with the U.S. Department of State to identify possible deals and to ensure that prices are on a "mutual beneficial base." Heydarov stated that MES is a semi-military organization and therefore needed to work through official channels for sales and training. Heydarov also discussed his ministry's aviation safety and sea rescue responsibilities, noting that MES "is ready to cooperate in all areas, including training" with the U.S.

¶11. (C) Heydarov said that MES was responsible for construction quality standards, adding that the construction boom in Baku had produced many structures that are not safe, well-planned or beneficial for the city. Mermoud told Heydarov about a U.S. architecture firm that participated in President Aliyev's business lunch in Washington that could assist MES with city planning and preservation of Baku's historical architecture. The Ambassador raised the Department of Energy's initiative to use energy efficient and earthquake resistant building materials to build affordable

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housing. Minister Heydarov welcomed the concept, noting that it fit well with work done by MES's research facilities and earthquake specialists.

¶12. (C) Mermoud also briefed Minister Heydarov on the inaugural Economic Partnership commission planned for early 2007, noting that the Ministry of Emergency Situations would be invited to participate. Heydarov stated that it was important for him to participate, adding that his ministry "protected many economic areas."

STATE INVESTMENT COMPANY

¶13. (C) In a separate meeting at the State Investment Company, Mermoud discussed with Executive Director Anar Akhundov the company's plans to invest in the non-oil sector. The State Investment Company is a newly created state-owned company with USD 100 million in capital designed to invest in non-oil sector companies and ventures. The GOAJ eventually plans to privatize the State Investment Company. The company is also seeking "co-financing" from international investors seeking to invest in Azerbaijan. Mermoud raised the possibility of U.S. private equity cooperating and investing with the State Investment Company in Azerbaijan. Akhundov gave a brief overview of the company's goals and objectives, noting, however, that the relative newness of the company meant that many operational details had yet to be finalized. Akhundov explained that the company was focusing on financing companies and ventures in the agricultural sector as well as a new project to build a petrochemical plant close to Baku. (NOTE: The Minister of Finance has also briefed the Ambassador on the GOAJ plans to build a new petrochemical plant.) Akhundov and the deputy executive director, Riad Gasmiov, plan to visit New York in the near-term to give a presentation on the State Investment Company and its investment opportunities to several private equity and hedge funds. Mermoud offered to assist Akhundov arrange other possible meetings while they are in the U.S.

¶14. (U) EB/CBA Mermoud cleared this message.

